



State of Idaho

Legislative Services Office

Management Report

A communication to the Joint Finance-Appropriations Committee

IDAHO DEPARTMENT OF INSURANCE

FY 2005, 2006, and 2007

Report IC28007
Date Issued: October 30, 2007

Serving Idaho's Citizen Legislature

FOREWORD

PURPOSE OF REPORT

We evaluated the internal controls over financial operations of the Idaho Department of Insurance as part of our effort to evaluate each State agency at least once every three years. This report summarizes the results of our evaluation.

SCOPE OF WORK

The management of the Department is responsible for establishing and maintaining internal controls. We obtained an understanding of the relevant policies and procedures comprising the internal control system. We also determined whether the relevant policies and procedures had actually been placed into operation. Our intent was to indicate where internal controls could be improved in order to help ensure the Department's ability to record, process, summarize, and report financial data accurately.

AUDIT AUTHORIZATION

Reported to the Joint Finance-Appropriations Committee as directed by the Legislative Council of the Idaho Legislature, authorized by Idaho Code, Section 67-429.

ASSIGNED STAFF

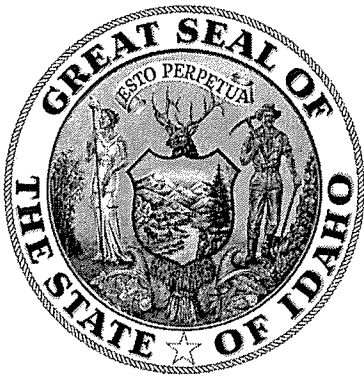
Jeff Trotter, Staff Auditor

ADMINISTRATION AND TECHNICAL REVIEW

Don H. Berg, CGFM, Manager, Legislative Audits Division
Eugene Sparks, CPA, CGFM, Managing Auditor

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EXECUTIVE SUMMARY LEGISLATIVE AUDITS

IDAHO DEPARTMENT OF INSURANCE

PURPOSE AND SCOPE – We performed certain audit procedures to evaluate the effectiveness of the Idaho Department of Insurance's internal control design and operation. The limited scope of our procedures does not allow us to give an opinion on the Department's internal control system. Accordingly, we do not express an opinion or ensure that all instances of internal control weaknesses were disclosed. Our purpose was to indicate where internal controls could be strengthened to help ensure accurate financial statements and data. Any findings and recommendations are intended to improve the internal control system to prevent errors, omissions, misrepresentations, or fraud.

CONCLUSION – We noted no matters involving the internal control over the Department's financial reporting or its operation that we considered to be material weaknesses. However, our consideration of internal controls would not necessarily disclose all matters considered to be a material weakness.

FINDINGS AND RECOMMENDATIONS – There are no findings and recommendations in this report or in the prior report.

AGENCY RESPONSE – The Department has reviewed the report and is in general agreement with its contents.

FINANCIAL SUMMARY – The Department is funded primarily from premium taxes, fees, and licenses. The following financial summary is presented for informational purposes only.

IDAHO DEPARTMENT OF INSURANCE – FISCAL YEAR 2007 FINANCIAL SUMMARY

FISCAL YEAR 2007	State Regulatory Fund 0229	Federal Fund 0348	Miscellaneous Revenue Fund 0349	Insurance Refund Fund 0515	Insurance Liquidation Trust Fund 0520	Insurance Insolvency Administration Fund 0423
Beginning Cash	\$9,935,357	\$7,237	\$9,742	\$40,000	\$3,288,006	\$100,000
Premium Tax	79,415,511	0	0	0	0	195
Other Revenue	7,331,414	250,900	85,673	0	0	0
Other Receipts/Transfers	5,084,455	0	0	6,213,100	951,479	0
Total Receipts	<u>\$91,831,380</u>	<u>\$250,900</u>	<u>\$85,673</u>	<u>\$6,213,100</u>	<u>\$951,479</u>	<u>\$195</u>
Total Funds Available	<u>\$101,766,737</u>	<u>\$258,137</u>	<u>\$95,415</u>	<u>\$6,253,100</u>	<u>\$4,239,485</u>	<u>\$100,195</u>
Less Disbursements						
Personnel Costs	\$3,743,229	\$136,800	\$76,744	\$0	\$0	\$0
Operating Costs	2,169,938	112,699	15,356	0	1,257,031	195
Capital Outlay	199,920	0	0	0	0	0
Trustee and Benefits	5,042,218	7,779	0	6,205,790	0	0
Other	80,343,529	0	0	7,310	1,500,000	0
Total Disbursements	<u>\$91,498,834</u>	<u>\$257,278</u>	<u>\$92,100</u>	<u>\$6,213,100</u>	<u>\$2,757,031</u>	<u>\$195</u>
Ending Cash	<u>\$10,267,903</u>	<u>\$859</u>	<u>\$3,315</u>	<u>\$40,000</u>	<u>\$1,482,454</u>	<u>\$100,000</u>

This report is intended solely for the information and use of the Idaho Department of Insurance and the Idaho Legislature and is not intended to be used by anyone other than these specified parties.

We appreciate the cooperation and assistance provided to us by the director, Bill Deal, and his staff.

QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:

Don H. Berg, CGFM, Manager, Legislative Audits Division

Eugene Sparks, CPA, CGFM, Managing Auditor

AGENCY RESPONSE

State of Idaho
DEPARTMENT OF INSURANCE

C.L. "BUTCH" OTTER
Governor

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WILLIAM W. DEAL
Director

October 4, 2007

Mr. Don Berg, CGFM
Manager, Legislative Audits Division

Don,

The Director and I have reviewed the draft of our audit for the years 2005-2007. We are in complete agreement with the findings and as such have no comments for insertion.

We would like to mention that we appreciate the professionalism and thoroughness of your staff. Their efforts have helped us identify some areas for improvement that we hope will enhance our internal controls once implemented.

Thank you,



Tom Wilkerson
Fiscal Officer

CC: William Deal
Eugene Sparks
Jeff Trotter

APPENDIX

HISTORY

State regulation of Idaho's insurance business began in 1901. In 1961, the present Department of Insurance was created and a commissioner of insurance designated. The Department of Insurance is created in Chapter 2, Title 41 of the Idaho Code.

When the executive branch of State government was reorganized in 1974, the Department of Insurance became one of 20 major departments included under the executive branch and the title of "commissioner" was changed to "director." The director is appointed by the Governor, subject to confirmation by the State Senate.

PURPOSE

The purpose of the Department of Insurance is to administer Idaho insurance laws and regulations, to protect the interest of the public in all insurance transactions, and to provide safety and stability of insurance institutions through regulations. Other responsibilities include examining various insurance companies for financial soundness, testing and licensing agents, reviewing insurance rates and policy forms, responding to inquiries and complaints from the public and insurance industry, providing consumer information through the Senior Health Insurance Benefits Advisor (SHIBA) program, and collecting insurance premium taxes.

In 1982, the State adopted the Uniform Fire Code and established a new division within the Department of Insurance entitled Arson, Fire, and Fraud. Currently, the division is known as the State Fire Marshal. This division is charged with enforcing the fire code, promoting fire prevention, and investigating alleged cases of arson and fraud. The division coordinates and participates in an integrated statewide system designed to protect human life from fire and explosions through fire prevention and investigation of fires. The program includes fire prevention activities, arson investigations, and operation of various statistical systems, including the Idaho Fire Incident Reporting System.

As of June 2007, the Department of Insurance regulates 23 domestic insurance companies. These companies must be examined at least once every five years. The Department also regulates 1,939 foreign insurance companies authorized to do business in Idaho. The director may accept examination reports prepared by other states that apply to foreign insurance companies doing business in more than one state. The National

ORGANIZATION

Association of Insurance Commissioners has adopted these examination procedures.

The Department was authorized 73 full-time positions for fiscal year 2007, with additional contracts for financial examiners and actuarial services. The Insurance Regulation Program consists of the following two bureaus.

Company Activities Bureau

This bureau monitors the financial condition of all insurance entities conducting business in the State of Idaho to ensure compliance with Idaho law and that each company meets the financial obligations of its policyholders. The bureau also reviews insurance policy rates and forms and collects and audits all insurance premium tax and fee returns.

Consumer Services Bureau

This bureau licenses and administers continuing education programs for insurance agents, brokers, insurance counselors, third-party administrators, adjusters, and managing general agents. The bureau analyzes consumer and industry complaints and provides assistance to consumers, the insurance industry, and other law enforcement agencies on matters involving insurance contracts and potential violations of the insurance code. Information, counseling, and assistance are provided to Idaho's senior citizens through a network of senior citizen volunteers and a toll free telephone number.

FUNDING

The Department is funded by the Insurance Administration Fund and the Arson, Fire and Fraud Fund, both of which are special revenue funds. Revenues are received from insurance company continuation fees, producer and other license fees, and other miscellaneous fees.

Following is a description of the Department's funding sources and uses:

Insurance Administration Fund (0229-10)

This fund receives fees, licenses, and miscellaneous charges assessed on the insurance industry. The money received is used for the operating expenses of the Department's Insurance Regulation Program. The amount of fund balance that exceeds the current year's appropriation by twenty-five percent (25%) or more (plus any encumbrances) is transferred to the General Fund.

State Fire Marshal Administration Fund (0229-11)

This fund receives penalties, a portion of insurers' continuation fees, and money derived from other sources for arson or fraud investigation or fire prevention. This fund is used to pay the expenses of the State Fire Marshal Program, Idaho Insurance

Code enforcement, investigation of alleged cases of arson or fraud, and related alleged violations of Idaho law.

Individual High Risk Reinsurance Pool (0229-13)

This fund receives one-fourth (25%) of the excess amount over \$45million that remains from insurance premium tax revenues after all statutory deductions have been made. The money is then used to pay the costs associated with providing health insurance coverage to high risk individuals regardless of health status or claims experience.

Federal Fund (0348)

These federal grant funds are used to partially pay expenses related to advising senior citizens who have health insurance questions at State fairs and medical conferences. The expenses include payroll costs, travel, and other miscellaneous expenses.

Miscellaneous Revenue Fund (0349)

This fund receives money from the Idaho Commission on Aging, which is used to assist seniors in dealing with Medicare fraud.

Insurance Refund Fund (0515)

This fund receives up to twenty percent (20%) of premium taxes, fines, and penalties collected. The money is used to repay overpayments of premium taxes, fines, penalties, or other erroneous receipts. The balance in the fund in excess of \$40,000 is transferred to the General Fund at the end of each fiscal year.

Insurance Liquidation Trust Fund (0520)

This fund receives the monetary assets of an insurer being liquidated. Individual accounts are established for each company in liquidation. Funds are used to liquidate the assets and pay claims for an insurer under the general supervision of the court. These funds are not State money.

Insurance Insolvency Administration Fund (0523)

This fund receives that portion of premium taxes necessary to cover administrative costs incurred when insurance companies are placed in receivership, to the extent that such costs cannot be satisfied from the assets of the companies. The funds are used to pay administrative expenses (not to exceed \$200,000 in any fiscal year) incurred by the Department in discharging its duties in rehabilitating or liquidating insurance companies where assets of such companies have been totally exhausted. A minimum balance of \$100,000 is maintained in this fund as of June 30 each year.

